



Director of
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*Thursday
19 January 1984*

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USSR: Andropov's Status

General Secretary Andropov apparently has been recovering from a combination of kidney, respiratory, and possibly immunological problems.

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The chief editor of *Pravda*, who said he was speaking "officially," told a US television interviewer that Andropov's treatment for "a kidney ailment" had been complicated by croup and influenza. He said Andropov probably would appear before a labor and youth audience in the weeks preceding his election to the Supreme Soviet.

The Supreme Soviet election is scheduled for 4 March.

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Early this month a Soviet official told the US Embassy that the doctors were telling Andropov to avoid public appearances and meetings with foreign leaders until his system had "recovered its natural immunity."

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Comment: Although Andropov's policies appear to be moving ahead, he probably needs to do something soon to convey an impression of physical soundness. The Politburo speeches that precede the election are the next scheduled event at which the General Secretary's failure to appear would be politically awkward.

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Andropov's early reappearance does not appear to be certain, despite the editor's public declaration.

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The General Secretary could be conducting the business of state attributed to him even under conditions of partial medical isolation.

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CUBA-USSR: Frictions Over Grenada

Havana's defeat in Grenada has lowered the morale of the Cuban armed forces and caused frictions in relations with the USSR, but this poses no threat to continued bilateral military cooperation.

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senior Cuban officers are seriously disturbed by the Soviets' influence over Cuban military policy abroad.

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Cuban officers were stunned by the humiliating defeat in Grenada and that they believe Havana's future foreign military policies should be more independent of Moscow's influence. [redacted] the officers want to prove themselves by defeating South African troops in Angola.

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The Cuban people believe that the advisers failed to organize the Cuban construction workers properly and that they fled in the face of advancing US forces to seek refuge in the Soviet Embassy. Criticism of the Soviets reportedly centers on Moscow's failure to order its personnel to join the Cubans in resisting US forces.

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Comment: The debacle in Grenada apparently has damaged the self-esteem of the Cuban military establishment and lowered its standing among the population. Havana evidently is trying to address this problem by giving publicity to leaders of the armed forces. The government recently staged a ceremony to bestow decorations on two high-ranking officers for their service abroad.

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[redacted] The Cubans are totally dependent on the Soviets for military aid, however, and the current bad feeling is unlikely to result in any major decline in bilateral ties.

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PLO-JORDAN: Meeting of Arafat and Hussein

PLO Chairman Arafat will hold talks soon with King Hussein on a joint strategy toward Middle East peace talks, but they probably will be unable to reconcile the differences that led to a breakdown of their discussions last April.

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Arafat and other Fatah leaders have said in recent interviews that the basis of the talks will be the resolutions adopted at the Fez Summit in 1982. These provided for Palestinian self-determination and reaffirmed the PLO as the sole representative of the Palestinians.

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Comment: Hussein has facilitated Arafat's visit by offering to hold talks without preconditions, but the King is unlikely to consider the Fez resolutions an adequate basis for negotiations. The King's implied threat to get the recently reconvened Jordanian parliament, which includes West Bank representatives, to give him a mandate to negotiate on behalf of the Palestinians independently of the PLO is intended to help persuade Arafat to reach an agreement.

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Although Arafat wants to improve relations with Jordan, he probably will be satisfied with small steps and limited progress. He is unlikely for now to give Hussein approval to represent the Palestinians in peace talks linked to the US initiative.

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Most West Bankers probably would support such a move. Arafat, however, would lose support even among his Fatah deputies—and jeopardize his position as PLO chairman—if he were to compromise on the PLO demands for self-determination and on the PLO's exclusive right to represent the Palestinians.

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Arafat apparently is still trying to improve relations with some radical PLO groups. Their price will be strict adherence to PLO resolutions that rule out an accommodation with Jordan.

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CANADA: Foreign Policy and Election Politics

Ottawa's recent foreign policy initiatives are designed to complement Prime Minister Trudeau's peace campaign and provide the Liberal Party with a platform for the next election.

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Trudeau wants to talk with Soviet officials in Moscow about his peace plan at the earliest opportunity, and he has said that he need not meet with General Secretary Andropov. He also intends to discuss his plan with the leaders of East Germany, Romania, and Czechoslovakia later this month. His inclusion of opposition spokesmen as observers in Canada's delegation to the Conference on Disarmament in Europe is designed to give his initiative a nonpartisan tone.

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The government, meanwhile, has announced an aid package for Nicaragua totaling nearly \$15 million, compared with \$2.5 million in 1983. It also has said it would join a UN-sponsored peacekeeping force to replace the Multinational Force in Beirut.

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Comment: Recent polls indicate that the voters expect Ottawa to promote disarmament, facilitate development in the Third World, and support the UN. The government's recent actions are in line with these interests, and they also satisfy the Canadians' traditional desire for a foreign policy different from that of the US.

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Ottawa's initiatives will trouble opposition Conservative leader Mulroney. His caucus is divided between a faction that favors a foreign policy close to the Liberals and one that prefers a tough anti-Communist approach. Increased assistance to Nicaragua is certain to outrage several prominent Tories who have called for an end to Canadian aid to Marxist governments. The aid package may cause public disagreement between the party's two factions.

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The Tories thus far have avoided defining their foreign policy goals, choosing instead to support US policies in general and to condemn the USSR's conduct. If the Tories bicker publicly over foreign policy, and if—as is likely—the hardliners prevail, the Liberals might succeed in portraying Mulroney as a "cold warrior." Mulroney also probably is concerned that the Liberals will wage an election campaign against US foreign policy and try to identify his party as a captive of Washington.

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GUATEMALA: Insurgent Activity

The guerrillas are increasing attacks against Army units in the countryside in an effort to recapture the tactical initiative that the military has held since early 1982.

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Comment: The frequency of the insurgents' attacks over the past two months, the size of their units, and the territorial extent of their actions suggest they are recovering from earlier setbacks. Guerrilla forces probably have not grown substantially from their estimated strength of 2,000 to 2,500. Nonetheless, their ability to increase their attacks indicates that they have been reorganized and reequipped.

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JAPAN-IRAN-IRAQ: Mediation Effort

Vice Foreign Minister Nakajima arrives in Iran today as part of Tokyo's effort to help end the war. [redacted]

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Officials in the Japanese Foreign Ministry say Nakajima will invite Iranian Foreign Minister Velayati to visit Japan. If he accepts, Tokyo tentatively plans to offer a separate invitation to Iraqi Foreign Minister Aziz. [redacted]

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Comment: Nakajima is carrying a proposal from Baghdad that Tehran allow Iraq's port facilities to be repaired and Iraqi oil to be shipped from the Persian Gulf in exchange for a pledge that Iraq will not bomb Iranian oil facilities. Japanese Foreign Ministry officials have told US officials that they have indications from Tehran that the Khomeini regime may informally permit port repairs and a resumption of Iraqi oil shipments. There is no evidence that Iran is willing to relax pressure on Iraq, however, and the Japanese may be misinterpreting Iranian remarks. [redacted]

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Japan is the only major power to maintain close relations with both countries. Although wary of the risks involved, it has emerged as the most active third party in efforts to arrange a cease-fire. [redacted]

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Tokyo has a large stake in the flow of oil from the Persian Gulf, and Japanese firms have invested almost \$500 million in the nearly complete petrochemical complex at Bandar-e Khomeyni. Tokyo is concerned that, if Baghdad's demarche is accepted, Japanese construction firms will be reluctant to work in the war zone unless US firms are also present. [redacted]

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ETHIOPIA-SUDAN: Increased Tension

Eritrean insurgents have captured the border town of Tessenei, the first important urban area to fall under their control in some years. Ethiopian troops—reportedly numbering several hundred—retreated across the border and surrendered to the Sudanese Army.

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25X1**Comment:**

Sudan's longtime aid to the Eritreans and its decision to publicize the Ethiopian defeat at Tessenei will keep tensions with Addis Ababa high. The Ethiopian leadership may retaliate by further increasing its assistance to Sudanese dissidents who are trying to overthrow President Nimeiri. Addis Ababa's eroding position against insurgencies in the north almost certainly will prevent it from committing its hard-pressed ground forces to intervene directly in Sudan. It might, however, consider punitive airstrikes against targets on the Sudanese side of the border.

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25X1**NIGERIA: New Cabinet Appointed**

General Buhari's three-week-old regime yesterday appointed an 18-man cabinet composed of 11 civilians and seven military officers. According to Radio Nigeria, the cabinet is generally representative of Nigeria's 19 states and includes four members of the ruling Supreme Military Council. Nigeria also has made a multimillion-dollar loan repayment to international banks on schedule this week.

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Comment: With the cabinet finally in place, Buhari now has to outline plans for economic recovery in order to counter the sense of drift his regime has created among Nigerians. The conventional character of his cabinet, with only token representation for middle-grade officers who favor more dynamic policies, is not likely to be greeted with any enthusiasm. Nigeria's prompt payment on its debt will be well regarded by Western bankers and should help pave the way for further negotiations on debt rescheduling and on an IMF accord. Buhari, however, has not begun preparing the public for the sacrifices that an austerity program will demand.

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NORWAY-NICARAGUA: Possible Increase in Aid

The Norwegian parliament's Foreign Affairs Committee, which recently completed a 10-day factfinding trip to Nicaragua, Mexico, and Costa Rica, is likely to criticize US policies in meetings in Washington tomorrow with US officials responsible for Central America. The 12 Norwegian representatives plan to discuss US policy toward Central America, particularly Nicaragua. US Embassy officials report that the group was impressed by the Sandinista government's intentions to hold elections, and virtually all members of the committee are now inclined to recommend an increase in Norwegian aid.

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Comment: The ruling Conservative Party has avoided giving economic aid to Nicaragua for 1984 by promising future increases in humanitarian aid. The government may find it difficult to ignore the committee's findings, however, because of public sympathy with the social ideals of such governments. If the opposition succeeds in designating Nicaragua as a primary aid recipient, Norwegian aid could be increased starting in 1985 from the current level of \$700,000 to as much as \$10 million. Such an increase would have to come at the expense of one of Norway's current recipient countries, most likely Pakistan.

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UK-ARGENTINA: Advice to Falkland Islanders

London apparently is trying to encourage the residents of the Falkland Islands to take a more conciliatory approach toward Buenos Aires. Deputy Foreign Secretary Lady Young ended a visit to the Falklands this week by saying that the islanders would benefit from closer economic links with Argentina. She added that leading Falklanders acknowledge the necessity for normal relations with Buenos Aires.

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Comment: Lady Young is a personal friend of Prime Minister Thatcher, and her views of the situation in the South Atlantic will carry weight. Her remarks probably are a reminder to the islanders that British support will have some limits and that closer ties with Argentina are essential for their future. If the local population agrees to make some gestures of conciliation, Thatcher will have more room to maneuver in the current diplomatic struggle with President Alfonsin over the future of the Falklands. She repeatedly has said that any concessions to Argentina have to be acceptable to the Falklanders themselves—a right of veto that British voters may not accept indefinitely.

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TANZANIA: Renewal of IMF Negotiations

An IMF team arrives in Dar es Salaam tomorrow in an effort to break the yearlong deadlock on a new assistance package. Previous discussions foundered on the IMF's demand that Tanzania devalue its currency by at least 80 percent in return for new funding. President Nyerere reportedly refuses to do this because he believes such a move would provoke civil unrest.

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Comment: Nyerere's prestige appears to be eroding rapidly as a result of his failed socialist policies. His continued refusal to accept IMF demands for devaluation will increase frustration among his senior advisers, who already are concerned about his inaction. A sizable devaluation, however, would result in price increases and commodity shortages and lead to widespread disturbances.

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MOROCCO: Scattered Unrest

The US Embassy reports that isolated incidents of violence have occurred in several cities but that there has been no general strike over deteriorating economic conditions.

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Comment: Following the recent bread riots in Tunisia, tensions have increased in Morocco over impending additional price increases and student grievances. Isolated demonstrations are likely to continue, but the country's fairly effective security forces are alert to potential disturbances. Rabat may have to choose between carrying out austerity measures required by the IMF to ensure more financing and risking serious disturbances similar to the large-scale food-price riots that occurred in 1981.

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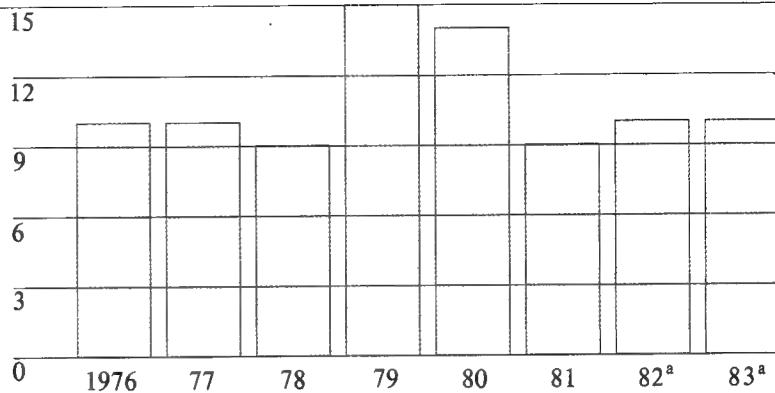
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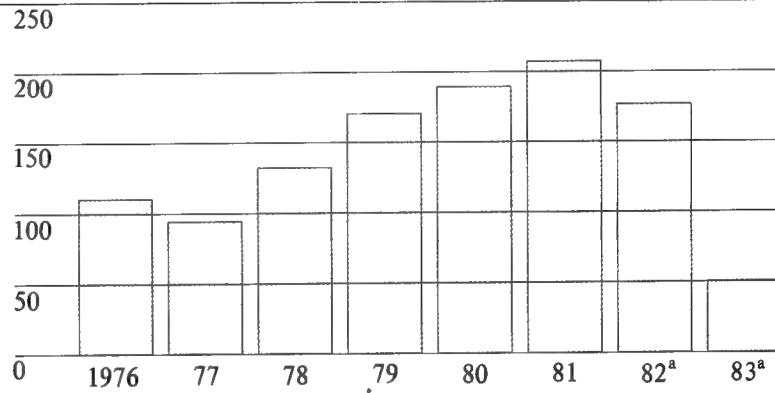
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Suriname: Economic Indicators

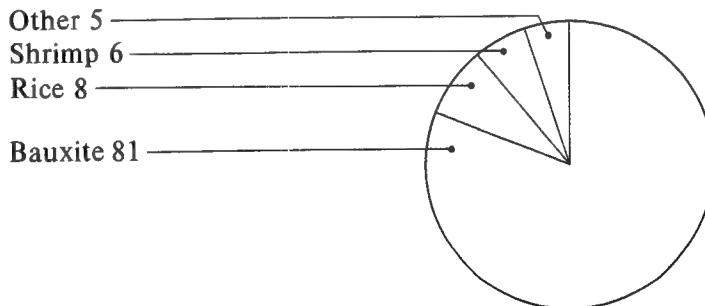
Inflation Rate
Percent



International Reserves
at Yearend
Million US \$



Exports by Sector, 1980
Percent

^a Estimated.

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Special Analysis

SURINAME: Economic Decline

The four-week-old strike by Surinamese bauxite workers continues despite the resignation of Prime Minister Alibux and his cabinet and despite the decision of Army Commander Bouterse to suspend controversial increases in income taxes, commodity prices, and import duties. The strike is further damaging an economy already suffering from government mismanagement and the suspension of Dutch aid in December 1982. Even if the labor dispute were settled quickly, the new cabinet would face severe economic problems requiring harsh austerity measures that could lead to more unrest. [redacted]

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Suriname's economic outlook was clouded, even before the current labor dispute, by the Bouterse regime's failure to find new sources of aid or to formulate a policy to cope with the loss. To maintain a high level of public spending and imports, the government drew heavily on its once substantial foreign reserves, borrowed from the Central Bank, and demanded concessional loans and "contributions" from commercial banks and private businessmen. It adopted only a few stop-gap austerity measures, including loosely enforced import controls, currency restrictions, and the tax increases that provoked the labor unrest. [redacted]

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Private investment has been inhibited by growing political uncertainty and increasingly heavyhanded government regulations. Production in the import-dependent agricultural and manufacturing sectors has stagnated, and the aluminum industry's output has dropped because of low world prices. Laws intended to protect jobs failed to stem the rising rate of unemployment, which jumped to more than 20 percent last year and prompted the regime to expel at least 2,000 laborers from neighboring Guyana. [redacted]

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Impact of Labor Unrest

The strike has closed down the aluminum industry, which accounts for 80 percent of Suriname's exports and at least 20 percent of government revenues. As a result, according to the US Embassy, the country is losing as much as \$750,000 a day in foreign exchange earnings. [redacted]

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Electric and bank workers also are participating in work stoppages, apparently in direct support of the bauxite strikers. Intermittent power outages caused by sabotage of electric facilities have cut manufacturing output in Paramaribo and have caused some food shortages.

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Even if the labor dispute ends soon, the strikes will do long-lasting damage to the economy. The restoration of aluminum output to prestrike levels—if the foreign-owned companies decide to stay in Suriname—will take at least a month. It could take several weeks just to restore electric service.

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Foreign funding is unlikely in the immediate future. Severely declining exports and resurgent capital flight could virtually exhaust Suriname's international reserves within a month, forcing a nearly total halt in imports. The new cabinet—which has not yet been appointed—will need to impose even harsher austerity measures than the controversial ones proposed by Alibux's government.

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More Problems Ahead

Paramaribo will have to consider much tighter import restrictions and new tax levies on highly paid workers, including the bauxite strikers who have caused the current disruption. It may even have to impose rationing. Government expenditures could be trimmed by cutting bloated civil service rolls, but this would add to already high unemployment.

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Pressure to undertake at least some of these measures is likely to come from the international institutions now considering Paramaribo's requests for loans. An IMF program, in particular, is a prerequisite for substantial new commercial funding.

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Any severe belt tightening, however, probably would be rejected by Surinamers. Under the Dutch, they became accustomed to one of the highest standards of living in the Caribbean region.

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Increased austerity could provoke a surge in capital flight and emigration of important skilled workers. Such developments would outweigh any increase in remittances from the large Surinamese population already living abroad. Those unable to leave would face prolonged economic hardship and political uncertainty, and unrest among them could spread quickly.

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Special Analysis

TUNISIA: Implications of Bread Riots

The recent protests over increases in bread prices reflect deep social strains in Tunisia and unhappiness with a political establishment that many of the urban poor, the young, and the unemployed find insensitive to their needs. The disorders have severely shaken the government, dislocated economic plans, and weakened Prime Minister Mzali's chances to succeed President Bourguiba. The suspension of the price increases, however, has given Mzali a chance to address grievances and try to repair his position. Meanwhile, Tunisia will continue to look to the US for economic aid and for help in discouraging Libyan meddling.

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The protests began spontaneously when the government removed subsidies on cereal products before carrying out promises to supplement incomes of the poor to protect them from the doubled price of bread. They resulted in more than 70 dead and 100 injured and several thousand arrests.

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The ruling Destourian Socialist Party was as ill prepared as the government for the disturbances. Local leaders failed to anticipate the intensity of the reaction to the price hikes. Party members did not respond to government efforts to mobilize them to help bring the disorders under control.

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Broadcasts—of unknown origin—of anti-Mzali slogans on police radio frequencies have raised some question within the regime about the reliability of the police and security forces. The Army, however, performed well. Bourguiba's appeal to the US for immediate delivery of military equipment unsuited for riot control may have been intended in part to reward the officer corps for its loyalty.

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Social Strains

The Tunisians who rioted are deeply alienated from a political establishment that represents the upper and middle classes. Economic growth has benefited mostly the northern urban areas, leading to serious regional imbalances, especially in comparison with the southern and western areas, where the disturbances began. Rural unemployed have migrated to the cities in the north, however, where social services have been unable to meet their needs.

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Radical Muslims are particularly well placed to exploit the discontent. Bourguiba's secular policies and the increasing Westernization of the middle and upper classes have given Islamic fundamentalism power and credibility among the dispossessed.

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Members of the underground Islamic Tendency Movement—whose leaders were imprisoned several years ago—claim credit for some of the disturbances. Security officials confirm the involvement of fundamentalists, who are the only important organized opposition group working to undermine the government.

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Political Repercussions

The protests have been politically costly to Mzali, who was charged with carrying out the decision to remove the subsidies. His statements during the disturbances that the government would proceed with its program probably reaffirmed popular misconceptions that he—rather than Bourguiba—had planned the price hikes. He also is blamed for ordering the sometimes heavyhanded suppression of the riots by Army and security forces.

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Bourguiba's abrupt suspension of the price increases undercut Mzali's own efforts to make amends with the poor. Protesters throughout the country called for the dismissal of Mzali, who finally admitted publicly that he miscalculated the degree of opposition to the increases.

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Economic Dilemma

This year the government anticipates increased expenditures of about \$200 million—an amount it cannot afford—if subsidies are left in place. Poor agricultural harvests in the last two years have increased the outlay for food imports. The country also has been hurt by the effects of global recession on its key foreign exchange earners—petroleum, phosphates, and tourism.

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In drafting the new budget, the government will have to reduce some subsidies gradually and postpone development projects. These measures in turn will make the inflation worse and lead to higher deficits at a time when investor confidence presumably is shaken. [redacted]

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Mzali has considerable managerial and political talent to draw upon in designing his new economic program. He also has the tentative support of organized labor, one of the most powerful political forces in the country. [redacted]

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On the other hand, Mzali's new budget will hurt the middle class, his traditional political base of support. Moreover, it could endanger the fragile wage agreements between the government and organized labor. [redacted]

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Prospects

Bourguiba's prestige and political skill helped calm the disturbances, but the ailing President is nearing the end of his rule. His political demise without a strong heir apparent—in the worst case—could encourage bitter political infighting, paralyze policymaking, and prevent the government from adequately addressing social problems. This in turn could prompt increasing agitation by radical Muslims and eventual intervention by the armed forces. [redacted]

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Mzali faces an uphill fight in repairing his damaged position. He will have to restore Bourguiba's confidence in him, persuade his middle-class constituency of the need for sacrifice, and win acceptance among the poor. [redacted]

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Tunisian officials may be using Libya as a scapegoat to rally national popular support behind the government and attract US aid. Despite Tunisian claims, it remains unclear whether Libya was behind the recent sabotage of an oil pipeline on the Tunisian-Algerian border. [redacted]

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Libya apparently was not involved in the disturbances but is likely to be encouraged by them to give more help to Tunisian dissidents. It probably will do so discreetly, however, to avoid provoking a strong response from the US or jeopardizing its efforts to improve relations with other Maghreb states. [redacted]

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